

TESTIMONY

OF

**DAVID M. LANEY, ESQ.
MEMBER, AMTRAK BOARD OF DIRECTORS**

BEFORE THE

**SENATE SUBCOMMITTEE ON SURFACE
TRANSPORTATION AND MERCHANT MARINE**

OF THE

**SENATE COMMITTEE ON COMMERCE, SCIENCE,
AND TRANSPORTATION**

TUESDAY, APRIL 19, 2005

9:30 A.M.

253 RUSSELL SENATE OFFICE BUILDING

Mr. Chairman and Members of the Committee, thank you for the opportunity to appear before you today. My name is David Laney, and I am Chairman of the Amtrak Board of Directors. Joining me is David Gunn, the President and Chief Executive Officer of Amtrak.

For the past several months, the Board and senior management at Amtrak have been working on an approach to reform Amtrak and revitalize rail passenger service in the United States. The reform initiatives we offer you today are the results of our efforts, drawing upon expertise in and outside of Amtrak and on the considerable body of legislative initiatives and “reform” recommendations that has preceded our own planning. It is by no means the final word on this discussion, nor does it answer every question. However, we believe it does advance and inform the discussion about what to do with Amtrak and what will need to be done to make rail passenger service a viable and vital part of our nation’s transportation system. What you have before you is a detailed set of initiatives, some of which Amtrak can do on its own and others which will require government action. Taken together, we believe that Amtrak’s Strategic Reform Initiatives can revitalize intercity rail transportation.

Our proposal advances four essential objectives:

1. Development of passenger rail corridors based on an 80-20 federal state capital matching program, with states assuming the initiative as the developers and “purchasers” of competitively bid corridor services.
2. Return of the Northeast Corridor infrastructure to a state of good repair and operational reliability, with all users gradually assuming financial responsibility for their proportionate share of operating and capital needs.
3. Continuation and possible addition and elimination of certain national long-distance routes that meet established performance thresholds, with a phase-in period to allow for performance improvement and state financial contribution if needed to meet the performance thresholds.
4. Finally, the opening of markets for virtually all functions and services involved in intercity passenger rail to competition and private commercial participation.

We have identified three sets of reform initiatives to achieve the objectives that I just mentioned. They include, in general terms, structural, operating and legislative changes. Amtrak has already made substantial progress in establishing an organizational structure and creating management controls which have resulted

in cost savings and better management; but we have considerable room for further improvement. We will, of course, continue to implement these types of changes and refine those already in place. To build on such improvements, this plan outlines a new focus on providing planning, budgeting, accounting and reporting of financial activity and performance along our distinct business lines – infrastructure management, NEC rail operations, state corridor operations and long-distance operations. This type of change we feel will improve our own planning and performance capabilities, and enhance the financial clarity of our operations.

Separately, operating initiatives identified in our plan highlight a range of actions intended to improve the performance of each business line in order to provide better service, achieve savings and enhance revenues. Our recommendations for changes in legislation hinge directly on creation of a federal capital matching program. Other recommendations in our view, if implemented, will help to establish a platform for open competition for intercity rail passenger services.

The lynchpin of this plan is the establishment of a federal matching program attractive enough to attract increased state financial involvement in existing and emerging corridors. Continued development of rail corridors is critical to the future of rail passenger service, and the pace of development will increase with the federal government as a reliable financial partner, just as it has been for decades

with highways, transit and aviation. On this point, we agree with the administration and every other responsible proposal for passenger rail “reform.” The demand and desire to do this exists today. A number of states have already begun developing rail corridors, essentially on their own nickel. They have recognized the need, the value of passenger rail capacity in responding to increasing congestion, and the popularity of rail service when it is adequately supported. (Ridership on corridor trains has grown 22% over the last five years.) However, to fully begin to realize the value of intercity passenger rail in addressing transportation challenges will require positioning it on comparable footing with other modes. Only then will states begin assuming the lead, and only then will we begin to see the emergence of real competition in the industry.

Returning the Northeast Corridor’s infrastructure to a state-of-good repair is an essential part of our “reform” proposal. In compiling this plan, we studied various proposals and reviewed models that other countries have pursued for separating the maintenance and operations of busy rail corridors and have concluded for now that the complexities and risks associated with such a split outweigh any benefits.

Amtrak owns most of the NEC, it is the only end-to-end user of the Corridor and, in terms of train miles operated, it is also the majority user. Amtrak NEC trains operate at the highest speeds in North America, and there are still segments of the

NEC where we are the only entity operating trains. Our immediate challenge is to restore the infrastructure to a state of good repair, which we are doing and is detailed in our proposal. The next set of challenges is to increase capacity for all users of the corridor to address growing ridership demands. We believe that Amtrak is in the best position, at the moment, to oversee and coordinate this work. There is very little disagreement about the importance of the NEC, both as a national transportation asset and its economic importance to the region it serves. While the Corridor does come close to covering its operating costs, it will never cover its capital needs. Our plan outlines a number of short term and long-term initiatives to address these issues.

Amtrak is committed to operating a national system of rail service. We believe that many of the communities served by long-distance trains lack real transportation choices and rely on these services. Amtrak operates 15 long-distance trains and for more than half of the states we serve, they are the only Amtrak service. Rightly or wrongly, long-distance trains have become a focal point in the debate over “reform” of passenger rail service. While we believe their continued operation is integral to the many communities they serve, they also represent the basis for any future expansion of rail corridors. It is important to note that we are confident that we will reduce their operating losses through a series of steps that we outline in our proposal, and we believe those reductions will be

substantial; however, we will not eliminate the need for financial support for long-distance operations. Central to this is the establishment of a phased-in performance improvement program that will couple cost-saving efficiencies with revenue enhancement initiatives, so that over time these trains will achieve financial performance thresholds or be discontinued.

I understand how important the question of what we do with long-distance trains is to this debate. Our proposal outlines a series of specific steps that we would take in evaluating our various long-distance services. As I said a moment ago, the first job is to set fair and clear performance standards for long-distance trains, and establish a minimum performance threshold. Once that is accomplished we would rank each route so that we can determine early on which trains meet the threshold or fall short. For all long-distance trains, we will work aggressively to improve their performance so that they will more likely achieve the desired goal. During this process, we will be providing clear remarks to the states reflecting the level of support each particular route will require in order to continue service on that route. As stated earlier, we will make every reasonable effort to improve the performance and close the operating “gap,” but ultimately states along the routes will be required to cover any recurring “gap” in order to continue train service on such routes. If a train continues to fall below the established performance threshold,

then we will notify the states involved and begin the process of discontinuing service on that route.

We do believe that there are many opportunities for competition in the rail passenger service industry. It is true that in some cases, having a single provider such as Amtrak might allow for economies of scale and certain cost efficiencies. We can assure you, however, that in some areas we are not the most efficient provider of rail-related services. A key goal that all of us should share is the development of a vibrant passenger rail service with a competitive supply industry and multiple service delivery options. This does not exist today. In this regard, there are actions that Amtrak can do on its own and others that will depend on federal legislative action. Some of the legislative decisions in this area will be difficult and will no doubt encounter stiff resistance from a number of entrenched interests. Any discussion of competition will involve making decisions about access rights to the freight rail infrastructure, tort liability limitations and limited changes to certain labor and labor retirement laws. We have provided a discussion of these matters in our proposal.

Also included in our report is our funding request for FY06. Typically, Congress receives our grant request in February. Since we were well into this planning

exercise, we elected to hold off making a request until we had completed our work. In so doing, we felt that we could give you a more comprehensive and accurate request for FY06 in the context of our reform package. The last dozen pages of the proposal details our FY06 budget requirement, which is \$1.82 billion, or \$1.645 billion if our working capital needs are covered by a short-term credit facility instead of a grant. We have also included a preview of how we would go about reporting Amtrak's financial information by business line.

Finally, it is worth emphasizing that Amtrak's Board and management have concluded that the company cannot continue to operate at Amtrak's current funding level of \$1.2 billion significantly, if at all, beyond FY05. The negative financial impact of the recent *Acela* problems could very well exhaust our working capital and leave us without available cash by fiscal year-end. We have taken and will continue to take aggressive steps to achieve short-term savings, but we have very little maneuverability in our operating budget and cannot responsibly make material reductions in capital expenditures (principally tied to NEC infrastructure, and its state of good repair). Over time, significant savings will be achieved only through an aggressive and systematic, multi-year transition process with legislative assistance. It is for this reason that we have brought forward our Strategic Reform Initiatives to help inform your decision-making for FY06 and beyond.

In closing, both David Gunn, his management team, my fellow Board members and I look forward to working with you in the weeks and months ahead as we develop our plan and move this debate forward. In many ways, the relative financial stability the company has achieved in the last two years, as well as the enormous amount of work that has been done to improve our infrastructure and operations, has afforded us the opportunity to develop a vision for Amtrak and intercity rail passenger service. The current funding model of unpredictable annual appropriation levels is unsustainable. There is a better way to do this. We have no choice but to start now, but we will need your support. David Gunn and I look forward to your questions.